

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

HEALTH PARTNERS OF SOUTHWEST IOWA

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HEALTH PARTNERS OF SOUTHWEST IOWA
Members
June 30, 2014

| <u>Members</u> | <u>Location</u> | <u>Representatives</u> |
|-------------------------------------|-----------------|------------------------|
| Cass County Memorial Hospital | Atlantic, Iowa | Todd Hudspeth |
| Montgomery County Memorial Hospital | Red Oak, Iowa | Allen Pohren |
| Myrtue Medical Center | Harlan, Iowa | Barry Jacobsen |

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Members of
Health Partners of Southwest Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Health Partners of Southwest Iowa (a 28E Organization) as of June 30, 2014 and 2013 and the related statements of operations and changes in members' net position, and cash flows for the years then ended. These financial statements are the responsibility of the members.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Members of
Health Partners of Southwest Iowa

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Partners of Southwest Iowa as of June 30, 2014 and 2013 and the results of its operations, changes in members' net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

The Organization has omitted the Management's Discussion and Analysis (MD&A), that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2014 on our consideration of Health Partners of Southwest Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gronewold, Bell, Kghun + Co. P.C.
Atlantic, Iowa
August 27, 2014

HEALTH PARTNERS OF SOUTHWEST IOWA
Statements of Net Position
June 30,

ASSETS

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 552,105 | \$ 807,416 |
| Certificates of deposit | 504,480 | 502,466 |
| Accounts receivable - members | 14,509 | 25,112 |
| - other hospitals | 30,061 | 26,253 |
| Prepaid expenses | <u>5,047</u> | <u>6,267</u> |
| Total current assets | 1,106,202 | 1,367,514 |
| Depreciable Capital Assets | 684,710 | 583,807 |
| Less accumulated depreciation | <u>149,816</u> | <u>505,529</u> |
| | 534,894 | 78,278 |
| Other Assets | <u>3,426</u> | <u>115,574</u> |
| Total assets | <u>\$ 1,644,522</u> | <u>\$ 1,561,366</u> |

LIABILITIES AND MEMBERS' NET POSITION

| | | |
|---|---------------------|---------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 8,607 | \$ 8,589 |
| Due to members | <u>239,948</u> | <u>196,302</u> |
| Total liabilities | 248,555 | 204,891 |
| Members' Net Position: | | |
| Invested in capital assets, net of related debt | 534,894 | 190,426 |
| Unrestricted | <u>861,073</u> | <u>1,166,049</u> |
| Total members' net position | <u>1,395,967</u> | <u>1,356,475</u> |
| Total liabilities and members' net position | <u>\$ 1,644,522</u> | <u>\$ 1,561,366</u> |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Statements of Operations and Changes in Members' Net Position
Year ended June 30,

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Revenues: | | |
| Nuclear medicine revenue | \$ 319,767 | \$ 307,422 |
| Other services revenue | <u>198,281</u> | <u>208,359</u> |
| | 518,048 | 515,781 |
| Operating Expenses: | | |
| Contract labor | 243,896 | 257,772 |
| Cost of nuclide | 76,633 | 66,831 |
| Depreciation | 109,856 | 15,835 |
| Dues and subscriptions | 100 | 142 |
| Education | 373 | 18,158 |
| Insurance | 6,602 | 2,993 |
| Licenses | 6,770 | 1,927 |
| Miscellaneous expense | 1,142 | 2,600 |
| Legal and accounting | 12,324 | 12,125 |
| Postage | 647 | 752 |
| Purchased services | 4,954 | 5,676 |
| Repairs and maintenance | 34,444 | 34,952 |
| Supplies | 24,351 | 12,809 |
| Telephone | -- | 375 |
| Travel | -- | 103 |
| Truck operation | <u>8,727</u> | <u>13,805</u> |
| Total operating expenses | <u>530,819</u> | <u>446,855</u> |
| Operating Income (Loss) | (12,771) | 68,926 |
| Non-Operating Income: | | |
| Gain on sale of assets | 37,529 | -- |
| Investment income | <u>14,734</u> | <u>4,106</u> |
| Total non-operating income | <u>52,263</u> | <u>4,106</u> |
| Excess of Revenues Over Expenses and Increase in Net Position | 39,492 | 73,032 |
| Members' Net Position, Beginning of Year | <u>1,356,475</u> | <u>1,283,443</u> |
| Members' Net Position, End of Year | <u>\$ 1,395,967</u> | <u>\$ 1,356,475</u> |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Statements of Cash Flows
Year ended June 30,

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from customers and members | \$ 410,630 | \$ 392,367 |
| Cash paid to suppliers and members | (261,866) | (259,760) |
| Net cash provided by operating activities | <u>148,764</u> | <u>132,607</u> |
| Cash flows from investing activities: | | |
| Investment income | 14,734 | 4,106 |
| Equipment purchases and deposits | (459,795) | (112,148) |
| Equipment sales | 43,000 | -- |
| Purchase of certificates of deposit | (2,014) | (792,466) |
| Redemption of certificates of deposit | <u>--</u> | <u>1,098,772</u> |
| Net cash provided by (used in) investing activities | <u>(404,075)</u> | <u>198,264</u> |
| Net increase (decrease) in cash | (255,311) | 330,871 |
| Cash, beginning of year | <u>807,416</u> | <u>476,545</u> |
| Cash, end of year | <u>\$ 552,105</u> | <u>\$ 807,416</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$(12,771) | \$ 68,926 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Depreciation | 109,856 | 15,835 |
| Changes in assets and liabilities | | |
| Accounts receivable | 6,795 | (13,978) |
| Prepaid expenses | 1,220 | (1,087) |
| Accounts payable | 18 | 2,522 |
| Due to members | 43,646 | 60,389 |
| Total adjustments | <u>161,535</u> | <u>63,681</u> |
| Net cash provided by operating activities | <u>\$ 148,764</u> | <u>\$ 132,607</u> |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Health Partners of Southwest Iowa was formed in 1996 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to share ideas, capital, and human resources to effect economies of scale and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the service areas of the member Hospitals. The Organization's primary operations currently include operation of a mobile nuclear medicine scanner, a certified training center, and providing credentialing services for members and other area hospitals.

The governing body of the Organization is composed of one representative from each of the three participating entities. The participating entities are Cass County Memorial Hospital, Montgomery County Memorial Hospital, and Myrtue Medical Center. Each participating entity owns an equal share in the organization.

2. Basis of Accounting

The accounts of the Organization are maintained as one proprietary fund which is considered to be a separate entity. The operations of the proprietary fund are accounted for by providing a set of self-balancing accounts which comprise its assets, liabilities, members' net position, revenues and expenditures.

The accompanying financial statements have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Equipment

Equipment acquisitions with a cost in excess of \$1,000 and lives in excess of three years, are recorded at cost. Depreciation is provided over the estimated useful life (ranging from three to ten years) of each class of depreciable asset and is computed on the straight-line method.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

The Organization's deposits at June 30, 2014 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa, because they are deposited as a sub-account of Cass County Memorial Hospital. The Organization's deposits consist of checking and savings accounts, and any certificates of deposit.

6. Accounts Receivable

The Organization considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is required.

NOTE B - CAPITAL ASSETS

Organization capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

| | <u>Balance 2013</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2014</u> |
|----------------|-------------------------|--------------------|------------------|-------------------------|
| Equipment Cost | \$ 583,807 | \$ 571,943 | \$ 471,040 | \$ 684,710 |
| Depreciation | <u>505,529</u> | <u>109,856</u> | <u>465,569</u> | <u>149,816</u> |
| Equipment, Net | <u>\$ 78,278</u> | <u>\$ 462,087</u> | <u>\$ 5,471</u> | <u>\$ 534,894</u> |
| | <u>Balance 2012</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2013</u> |
| Equipment Cost | \$ 583,807 | \$ -- | \$ -- | \$ 583,807 |
| Depreciation | <u>489,694</u> | <u>15,835</u> | <u>--</u> | <u>505,529</u> |
| Equipment, Net | <u>\$ 94,113</u> | <u>\$(15,835)</u> | <u>\$ --</u> | <u>\$ 78,278</u> |

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2014 and 2013

NOTE C - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa is a joint venture of three hospitals including Cass County Memorial Hospital (CCMH), Montgomery County Memorial Hospital (MCMH), and Myrtue Medical Center (MMC). Each of the three hospitals purchase mobile scanning and other services from the Organization. In addition, the hospitals are reimbursed for supplies and labor provided to the joint venture. Below is a list of amounts due to or from Health Partners of Southwest Iowa by the members at year end and the transactions between the Organization and members during the years ended:

| | <u>CCMH</u> | <u>MCMH</u> | <u>MMC</u> |
|---|-------------|-------------|------------|
| <u>June 30, 2014</u> | | | |
| Due from hospitals | \$ -- | \$ 5,890 | \$ 8,619 |
| Due (to) hospitals | (231,984) | (4,143) | (3,821) |
| Services rendered to hospitals | 121,844 | 92,033 | 75,255 |
| Services and supplies purchased through hospitals | 155,713 | 38,580 | 79,624 |
| <u>June 30, 2013</u> | | | |
| Due from hospitals | \$ -- | \$ 19,902 | \$ 5,210 |
| Due (to) hospitals | (190,484) | -- | (5,818) |
| Services rendered to hospitals | 120,457 | 89,188 | 68,472 |
| Services and supplies purchased through hospitals | 173,759 | 26,572 | 69,025 |

NOTE D - COMMITMENT AND CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile nuclear medicine scanning services. Approximately 56% (54% in 2013) of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 52% (60% in 2013) of its expenses) from member hospitals.

Risk Management

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided through liability insurance contracts of each of the individual members. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Health Partners of Southwest Iowa is exposed to various other common business risks for which it is covered by commercial insurance of Cass County Memorial Hospital. Settled claims from these risks have not exceeded insurance coverage during any of the past three years.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2014 and 2013

NOTE D - COMMITMENT AND CONTINGENCIES - Continued

Subsequent Events

The Organization has evaluated all subsequent events through August 27, 2014, the date the financial statements were available to be issued.

NOTE E - RECLASSIFICATION OF AMOUNTS

Certain items on the statement of operations and changes in members' net position for the year ended June 30, 2013 have been reclassified to be comparable to the amounts reported for the year ended June 30, 2014. The changes had no effect on operating income or the excess of revenues over expenses for that year.

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of
Health Partners of Southwest Iowa

We have audited the financial statements of Health Partners of Southwest Iowa as of and for the year ended June 30, 2014, and have issued our report thereon dated August 27, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Health Partners of Southwest Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Health Partners of Southwest Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

To the Members of
Health Partners of Southwest Iowa

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health Partners of Southwest Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Response to Finding

Health Partners of Southwest Iowa's response to findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Organization's response, we did not audit the Organization's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gronebold, Bell, Kyhnn + Co. P.C.
Atlantic, Iowa
August 27, 2014

HEALTH PARTNERS OF SOUTHWEST IOWA
Schedule of Findings
Year Ended June 30, 2014

PART I - REPORTABLE CONDITIONS

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Organization. However, this situation is common in small organizations.

Recommendation: We recognize that it may not be economically feasible for the Organization to contract for additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The members are aware of this lack of segregation of duties, but it is not economically feasible for the Organization to contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

* * *